



State of Wisconsin  
**Department of Health and Family Services**

Jim Doyle, Governor  
Helene Nelson, Secretary

### **Rural Adjustment for Inpatient Hospitals**

	FY 04		FY 05	
	GPR	All Funds	GPR	All Funds
MA Expenditures	\$ (937,000)	\$ (2,253,200)	\$ (937,000)	\$ (2,252,900)

### **Description of Proposal**

- Eliminate the Medicaid (MA) rural adjustment to fee-for-service inpatient hospital rates.

### **Background**

- A hospital is eligible to receive a rural adjustment if it meets the following conditions:
  1. is located in Wisconsin.
  2. is not located in an metropolitan statistical area as defined by the Centers for Medicare and Medicaid Systems,
  3. meets certain Medicare criteria for location in a rural area,
  4. the number of discharges excluding newborns and the case mix index under Medicare and MA do not exceed the median for urban hospitals.
  5. the portion of patients whose costs are paid under Medicare and MA is above 50%, and
  6. is not a critical access hospital.
- Critical access hospitals are not eligible for a rural hospital adjustment because they receive cost-based reimbursement under MA.
- In FY 02, 58 hospitals received an inpatient hospital rural adjustment.
- The Department provides up to \$2,256,000 per year to hospitals under the MA rural adjustment. The total amount provided is limited by statute.
- The amount a hospital receives under the rural adjustment is based on MA utilization and total volume of MA provided services. In FY 02, approximately half of the rural adjustment payments went to six hospitals with relatively high MA utilization.

### **Rationale for Proposal**

- Although rural hospitals tend to have the narrowest profit margins, Department data indicates that rural hospitals have experienced improved margins in recent years. National survey data also shows increased margins for all Wisconsin hospitals. Between 1997 and 2001, in the aggregate the Wisconsin hospital industry's profit margin increased from approximately 7.2% to 7.8%. Hospital operational margins also increased from approximately 5.4% to 6.7%. Because hospitals show enhanced profitability, it is expected that the elimination of the rural adjustment will not jeopardize rural hospital services in Wisconsin.

- It is not clear that rural hospitals have unique financial conditions different from other hospitals that warrant a special MA payment.
- Medicaid and Medicare have established reasonable cost reimbursement for small rural hospitals that meet Critical Access Hospital (CAH) criteria. Medicaid payments currently support 28 CAH hospitals, many of which were previously eligible for the rural adjustment.